

Message Text

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PASS COMMERCE AND TREASURY

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: UK TAXES AND FOREIGN RESIDENTS

THE UK FY 74-75 BUDGET, INTRODUCED BY CHANCELLOR OF THE EXCHEQUER, DENIS HEALEY ON MARCH 26, 1974, PROPOSED CHANGES IN THE TAXATION OF FOREIGN INCOME OF PARTICULAR RELEVANCE TO THE U.S. BUSINESS COMMUNITY IN THE UNITED KINGDOM. AT PRESENT THOSE AMERICANS WHO ENJOY EXEMPTION FROM U.S. INCOME TAX (SECTION 911 IRC 1954) PAY U.K. TAX ONLY ON THAT INCOME EARNED IN THE U.K. OR REMITTED THERETO. CAPITAL (E.G. IN THE FORM OF LOANS OR REMITTANCES) BROUGHT IN IS NOT LIABLE TO U.K. TAXES.

THE NEW PROPOSALS HAVE NOT YET BEEN PUBLISHED IN FULL AND DETAILS WILL NOT BE AVAILABLE UNTIL THE FINANCE BILL IS PUBLISHED IN LATE APRIL. HOWEVER, IT IS OUR PROVISIONAL UNDERSTANDING THAT THE CHANGES ARE OF TWO SORTS. FOREIGNERS TEMPORARILY WORKING IN THE U.K. WHOSE EMPLOYER IS RESIDENT ABROAD WILL, DURING THE FIRST FIVE YEARS OF THEIR RESIDENCE, BE LIABLE FOR U.K. TAX ON HALF THE EARNINGS THEY RECEIVE FOR THE JOB THEY DO IN THE U.K. THEY WILL NOT BE TAXED ON INVESTMENT INCOME RECEIVED OUTSIDE OF THE U.K., NOR ON INCOME FROM PRIVATE TRUSTS ESTABLISHED OUTSIDE THE U.K. UNLESS SUCH FUNDS ARE REMITTED TO THE U.K. NEITHER WILL THEY BE

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TAXED ON EARNINGS FROM EMPLOYMENT OUTSIDE THE U.K., BUT

THERE WILL BE A DEFINITIONAL PROBLEM AS TO WHAT CONSTITUTES U.K. EARNINGS. THE DEFINITION OF "FOREIGNERS TEMPORARILY WORKING IN BRITAIN WHOSE EMPLOYER IS RESIDENT ABROAD" WILL PROBABLY INCLUDE ANYONE WHO WOULD NOT FALL INTO A LONGER-TERM DEFINITION AND BE CLASSIFIED AS A RESIDENT. THE LONGER TERM DEFINITION WOULD ENCOMPASS FOREIGNERS WORKING OR LIVING IN THE U.K. "ORDINARILY RESIDENT HERE FOR FIVE OUT OF THE SIX PRECEDING TAX YEARS" BEGINNING FROM THE TAX YEAR APRIL 1976-77 ONWARDS. FOREIGNERS FALLING INTO THIS CATEGORY WILL BE TREATED FOR INCOME TAX AND CAPITAL GAINS TAX AS IF THEY WERE UK NATIVES, AND WOULD BE CHARGED TAX ON THE BASIS OF WORLD INCOME AND CAPITAL GAINS. ONE ELEMENT IN THE NEW BUDGET IS THAT 90 PERCENT OF OVERSEAS INCOME OF RESIDENTS OR NATIVES WILL BE TAXED, IRRESPECTIVE OF THE AMOUNT REMITTED TO THE UK.

THOSE FOREIGNERS IN THE SHORT-TERM CATEGORY, LIABLE FOR TAX ON HALF THEIR EARNINGS STEMMING FROM THEIR ACTIVITIES IN THE UK WOULD IN FACT BENEFIT FROM A LOWER RATE OF TAX BECAUSE OF THE PROGRESSIVE TAX RATES, I.E. IF TOTAL INCOME WAS 10,000 POUNDS, ONLY 5,000 POUNDS WOULD BE TAXED. THE TAX RATE ON 5,000 POUNDS WOULD BE LOWER THAN FIGURING A TAX BILL BASED ON AN INCOME OF 10,000 POUNDS AND THEN PAYING ONLY HALF THAT AMOUNT BASED ON THE 10,000 POUNDS INCOME.

WE DO NOT HAVE FIRM INFORMATION ON HOW US PENSIONS OR US SOCIAL SECURITY WILL BE TAXED UNDER THE PROPOSALS. THE CHANCELLOR'S STATEMENT SAID THAT PENSIONS FROM OVERSEAS RECEIVED BY UK RESIDENTS WOULD BE TAXED ON 90 PERCENT OF THE FULL AMOUNT, IRRESPECTIVE OF THE AMOUNT REMITTED. THUS FAR THERE HAS BEEN NO DISCUSSION OF WHETHER THOSE PERSONS CLASSIFIED AS LONG TERM UK RESIDENTS WILL BE SUBJECT TO ESTATE DUTY ON NON-UK ASSETS. WHEN FINANCE BILL IS ISSUED, WE WILL REPORT COMPLETE DETAILS OF NEW TAXES AFFECTING FOREIGN EMPLOYEES.

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